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THE INFLUENCE OF SHORT-TERM RENTAL ON RENTAL HOUSING PRICES IN PRAGUE

Abstract:

Prague has for a long time been struggling with the problem of constantly increasing housing prices and their lack. Offer available apartments is extremely low and is manifested by significant price growth and also the limited supply of apartments for sale and rent. One of the factors influencing the price of flats in Prague may be short-term rentals. Today there is an increasing number of flats in the total offer of short-term rentals and the number of hosts with more than one offer is also rising. Airbnb will deviate from its original idea of sharing "extra beds".

Keywords:

short-term rental; Prague; sharing economy; Airbnb

JEL Classification: R10, R21, R31

Introduction

Prague has for a long time been struggling with the problem of constantly increasing housing prices and their lack. Offer available apartments is extremely low and is manifested by significant price growth and also the limited supply of apartments for sale and rent.

The development of the housing market in Prague has a large number of factors influencing real estate prices and housing construction. It is therefore problematic to find out which ones specifically support the rise in prices most crucially.

One of the factors influencing the price of flats in Prague may be shared accommodation. Due to the dynamic development of shared accommodation, its impact of Airbnb on the prices of apartments in Prague very topical and often discussed topic.

Another factor is e.g. growth in demand. The population of Prague is constantly increasing. Over the last ten years, 100,000 people have arrived in Prague. At the same time also reduces the number of residents per household. The number of "single" is increasing and, therefore, we need more apartments.

Other influences are the lengthy building permitting processes. Permitting residential development projects in Prague takes an average of 7 years, the overall process from the first stage of pre-project preparation after the completion of construction for 9 years. Low offer is not enough to cover demand and housing prices are rising.

Other factors that determine the price on the real estate market, not only in Prague, are e.g. GDP (gross domestic product), inflation, interest rates on savings accounts and mortgage rates.

Sharing economy

Sharing economy is an economic model based on sharing, renting, lending, exchanging services or goods, as opposed to owning them. With technology advances, the sharing economy has seen a huge growth in recent years. Digital platforms that reduce transaction costs and can quickly link supply with offering and share a variety of services. Owners can take full advantage of their property, and consumers can only consume as much as they need. Platforms that operate on shared economy are, for example, Airbnb, Uber and Liftago.

Airbnb

History

Airbnb is a web portal that operates on the principle of a sharing economy and mediates short-term rentals in more than 81,000 cities and 191 countries. Today it is one of the leading startups, whose value is around \$ 30 billion. The company was officially founded in 2008 in San Francisco. It originally originated as an idea for two designers Brian Chesky and Joe Gebbia who decided to make extra money by offering a bed at home during a design conference. They therefore created the airbedandbreakfast.com site where they offered their accommodation. Later, Nathan Blecharczyk became a partner, and then in 2009, the name was shorted to airbnb.com.

Positive

Owners of apartments /hosts the possibility to rent a room, allows to use the free capacity of their apartment. Thanks to this, they can afford to live in a more expensive location or to

keep an apartment larger, which would not have been possible without the additional income from this rental.

An advantage for consumers is a price that, for example, allows them to remain in the destination longer. Another benefit is getting to know the culture in the destination destination by sharing accommodation with the person / host who lives here.

Negative

The original Airbnb concept was based on sharing an extra "bed". Today, the share of entire homes is still increasing in the overall offer of short-term rentals.

Analysis of offers provided through Airbnb

Rental type

The offer of shared accommodation in Prague can be analyzed based on the type and size of the rentals and the amount of units offered per host.

There are 3 types of rental on Airbnb

- entire home 80%
- private room 18%
- shared room 2%

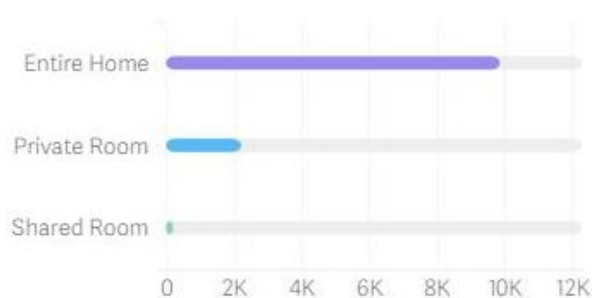


Figure 1: Representation of rental type on the Airbnb market in Prague 2018 (source: AirDNA)

In Prague, the total number of active offers offered through Airbnb 12 287. 80% of the offer (9 866) consists of the entire home. 18% (2218) private rooms and only 2% (203) shared rooms.

The large predominance of entire home for rent points to hosts who rent a flat in which they do not live. There disappearing original idea of enriching encounters with locals, hosts usually only transmit keys to the apartment, or even send the SMS code to enter. Accommodation then becomes as anonymous as the hotel.

Host type

Another indicator is the hosts who have multiple offers and are renting more than one apartment at a time. These hosts are the problematic group that used the unregulated market situation with short-term rentals through the Airbnb platform and on these apartment

rentals have built their business. These apartments are missing in the long-term rental market. Tourists are willing to pay for short-term rent more than residents for long-term rental. These are Multi-listings Hosts. The opposite is Single-listings Hosts with only one offer.

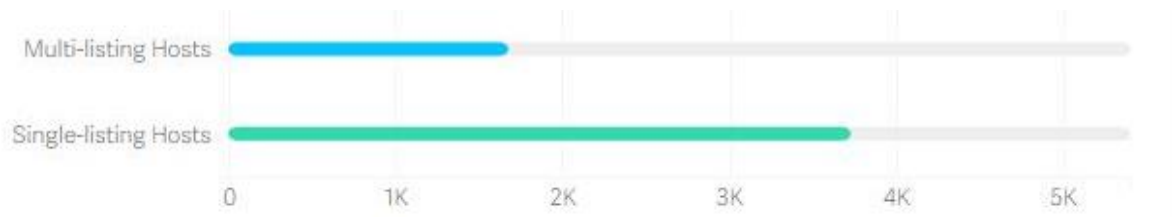


Figure 2: Representation of Multi-listing Hosts and Single-listing Hosts on the Airbnb market in Prague 2018 (source: AirDNA)

Currently, 5,407 hosts rent their apartments via Airbnb. 31% (1 677) host renting more than one apartment. 69%, (3,730) hosts renting only one apartment.

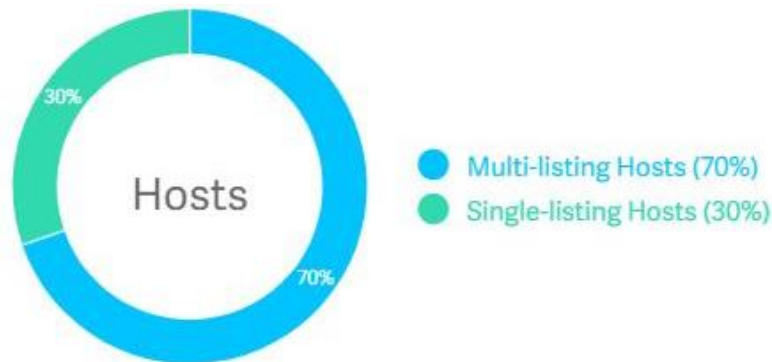


Figure 3: Distribution of hosts on the Airbnb market in Prague 2018 (source: AirDNA)

Currently, Airbnb has 12,887 apartments. 70% (8,557) offer hosts with more than one offer. 30%, (3,730) offer the hosts with just one offer. As a result, 31% of the hosts account for 70% of the total offer. This is a professional host.

Airbnb removes part of the apartments that could otherwise be offered for long-term rental. The apartments are designed for investment only, offered to tourists and not for living for the inhabitants of Prague.

The biggest problem is in the city center, where residents are gradually being pushed out because of the high demand of tourists and therefore the resulting high rental prices.

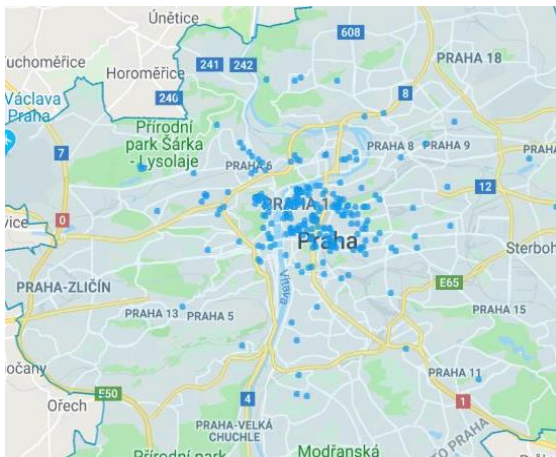


Figure 4: Private room offered by Airbnb in Prague in October 2018 (source: AirDNA)

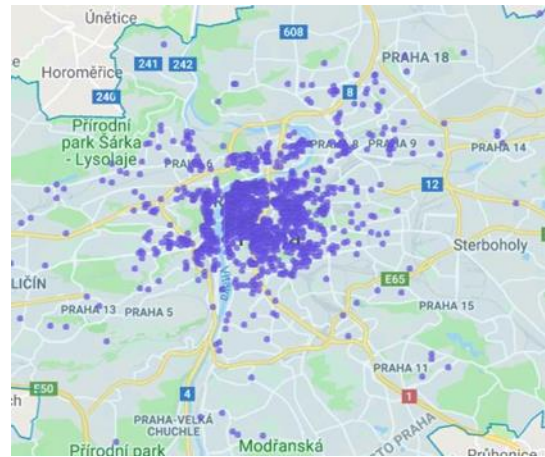


Figure 5: Entire home offered by Airbnb in Prague in October 2018 (source: AirDNA)

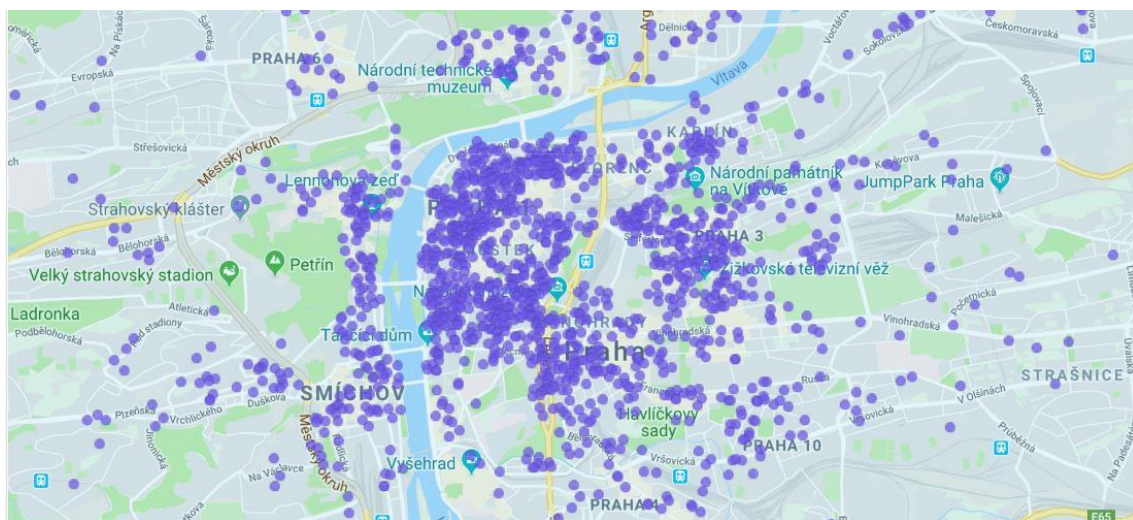


Figure 6: The location of entire home in the center of Prague offered by Airbnb in Prague in October 2018 (source: AirDNA)

Against these offers, the most common are the regulation of individual cities and countries. Airbnb regulates cities rather than states.

Airbnb regulation abroad

The regulation of shared accommodation in Europe is in Amsterdam, Barcelona, Berlin, London, Palma and Paris, in the world of Tokyo, Santa Monica, New York, San Francisco and Singapore.

E.g. in Amsterdam, the regulation restricts the short-term lease of entire real estate to 60 days per year. From 2019, the regulation will be tightened to 30 days / year. Once this limit has been exceeded, applications should not allow additional bookings in the same year. The host can not accommodate more than 4 guests at the same time. In Amsterdam, it is also a variant that only shared rental where the host lives at the same time will be possible in the future.

A law was introduced in Berlin prohibiting the renting of the entire home on shared accommodation portals in order to generate profits.

In Paris, restrictions apply only to the 4 city districts that make up the historic heart of the city. Owners can rent entire houses / apartments for up to 120 days / year.

It follows from the foregoing that cities are regulating differently, some regulate short-term rentals by the number of rooms that can be rented by the hosts, other by the number of days after which the property can be rented.

Conclusion

Today there is an increasing number of flats in the total offer of short-term rentals and the number of hosts with more than one offer is also rising. Airbnb will deviate from its original idea of sharing "extra beds".

Airbnb removes part of the apartments that could otherwise be offered for long-term rental. It could be argued that Airbnb represents only a small percentage of all housing units on the market in that city, but may represent a significant percentage in some neighborhoods.

The issue is quite broad and has been outlined in this article. It can serve as a background, an overview for reflection. For detailed analysis and a specific proposal for a regulatory solution, it would be necessary to obtain accurate data from individual cities where the regulation was already under way and to assess its impact over a certain period of time. It would then show whether the chosen approaches of each city are correct and which would be most suitable for Prague.

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